

New Issue: Idaho Bond Bank Authority

MOODY'S ASSIGNS Aa2 RATING TO THE IDAHO BOND BANK AUTHORITY REVENUE BONDS, SERIES 2009B

APPROXIMATELY \$177 MILLION OF DEBT AFFECTED, INCLUDING CURRENT OFFERING

Twin Falls (City of) ID Water Enterprise
Other Sectors
ID

Moody's Rating

| ISSUE | RATING |
|-----------------------------|---------------|
| Revenue Bonds, Series 2009B | Aa2 |
| Sale Amount | \$10,225,000 |
| Expected Sale Date | 05/28/09 |
| Rating Description | Revenue Bonds |

Opinion

NEW YORK, May 26, 2009 -- Moody's Investors Service has assigned an Aa2 rating to the Idaho Bond Bank Authority Revenue Bonds, Series 2009B in the amount of approximately \$10.2 million. At this time, Moody's affirms the Aa2 rating on the Idaho Bond Bank Authority's outstanding bonds in the approximate amount of \$166.4 million. All of the bond bank's debt is currently fixed rate obligations. Proceeds from the current offering will be used to provide one loan to the City of Twin Falls Water Enterprise. The current bonds are secured by the net revenues of the water enterprise. Further security is provided by the state intercept whereby intergovernmental revenues will be transferred directly to the trustee to pay debt service if payment has not been received within ten days of the debt service payment date. The 2009B bonds are also secured by a pledge of the state's sales tax revenues. The Aa2 rating reflects the broad pledge of the State of Idaho's (Issuer Rating Aa2, with a stable outlook) sales tax revenues, the state intercept mechanism, satisfactory payment timing, and the average credit quality of the net revenues securing the 2009B bonds.

BOND BANK AUTHORIZED BY CONSTITUTION AND STATUTE AND APPROVED BY VOTERS

The Idaho Bond Bank program was authorized in 2001 as a result of a series of legislative and voter-approved actions. The Legislature approved an amendment to the Idaho State Constitution (Article VIII, Section 2A); the voters of Idaho approved the creation of the Idaho Bond Bank and the state sales tax pledge in 2000. The program was authorized in 2001 by the Idaho Bond Bank Authority Act (Title 67, Chapter 87 of the Idaho Statutes), which established the bond bank to provide Idaho communities with an attractive mechanism for financing local infrastructure.

Under the bond bank program, each series of bonds is secured by a pledge of the underlying borrowers. The security set forth in each underlying borrower's loan agreement may include, but is not limited to a general obligation, pledge of net enterprise revenues, property tax assessments, or a general fund lease. Further, the bond bank program includes a credit review process and minimum credit criteria for potential borrowers. The process includes a qualitative component ensuring eligibility in the program, the legal authority to borrow, and a review of the borrower's capital planning program. The quantitative component evaluates criteria including the historical strength of the borrower's specific pledge, the impact of the borrowing on operating funds, and minimum debt service coverage thresholds, as well as economic, population and tax base trends.

MECHANISM AND TIMING OF STATE SALES TAX PAYMENTS IS SATISFACTORY; CURRENTLY, PLEDGED STATE SALES TAX REVENUES PROVIDE AMPLE COVERAGE OF IDAHO BOND BANK AUTHORITY BONDS, ALTHOUGH FUTURE DECLINES IN REVENUES ARE PROJECTED

Interest payments are due March 15 with principal and interest due on September 15. Bond bank loan participants are required to pay the bond bank trustee 15 days prior to bond payment. If the participant's payment has not been received within 10 days of the payment date, the trustee is required to notify the state treasurer to implement intercept procedures, if applicable. Finally, if funds are insufficient within five days of the payment date, the state treasurer will transfer from the state sales tax account an amount sufficient to make the scheduled debt service payment.

Due to a constitutional prohibition on the lending of the state's credit to municipalities, Idaho has opted to provide for a pledge of state sales tax revenues to guarantee full and timely payment of loan participant debt service when due. The State of Idaho's Tax Anticipation Notes (TANs) have the most senior lien on the sales tax revenues. The TANs, however, are secured by tax revenues, including individual income, sales tax collections, and corporate income, to be received in the fourth quarter, as well as the state's full faith and credit general obligation pledge. The State of Idaho's Tax Anticipation Notes Series 2008 in the amount of \$600 million received a Moody's MIG-1 rating in June 2008 and projected fourth-quarter revenues provide 1.6 times coverage of note principal. Idaho School Bond Guaranty (ISBG) bonds issued since July 1, 2001 outstanding in the approximate amount of \$612.4 million have a parity lien on State Sales Tax Revenues. To date the ISBG program (Aaa) has never made any claims against the State Sales Tax revenues given the voter-approved unlimited ad valorem property tax pledge securing each ISBG participant, presence of Public School Permanent Endowment Fund and the state intercept mechanism. Typically, the amount of interceptable revenues allocated to a school district far exceed the amount of annual debt service required to be paid in any given year; as of December 2008, FY08 interceptable revenues to school districts participating in the ISBG program provide an average of roughly 14 times coverage of MADS.

Fiscal 2008 sales tax revenues have increased slightly since fiscal 2007 (3.6%) and provide 92 times coverage of maximum annual debt service (MADS) in 2021 of all outstanding IBBA debt. As a result of the national and regional economic downturn, fiscal 2009 sales tax revenues are estimated to decline by more than 22% resulting in a MADS coverage of about 72 times. In addition, FY08 state sales tax revenues provide MADS (2010) coverage of roughly 17 times for both programs (IBBA and ISBG) combined. Looking ahead, officials at the state level are projecting a FY10 decline in state sales tax revenues of only 0.5%, which Moody's views as somewhat optimistic given prior FY10 projected declines of roughly 6% and given the state's housing market remains on a sharp downturn, employment in tech manufacturing and leisure/hospitality continues to decline, and ultimately consumer activity is expected to remain sluggish over the near term. As of February 2009, the unemployment rate increased to 7.8% (from 4.9% in February 2008), but still remains below the nation (8.9%).

SATISFACTORY CREDIT QUALITY OF SOLE PARTICIPANT

The current sale includes a single loan of \$10.255 million to the City of Twin Falls Water Enterprise System (no underlying rating). The loan is secured by the net revenues of water enterprise system. The loan is relatively small and makes up only 5.8% of total outstanding loans since the programs inception. The current loan is also secured through state intercept payments established under Idaho Code. Importantly, the 2009B bonds are additionally secured by a transfer from the state sales tax account in an amount sufficient to make the scheduled debt service payment.

Each participant in the program is required to execute a loan agreement with the bond bank to provide funds to make payments on the new loan. The bond bank will use these payments to repay the participant's portion of the Series 2009B bonds. There are no cross-default provisions in the loan agreements; therefore each participant will not be liable for the failure of any other municipality to make payments with respect to previously issued bonds.

Since the 2000 census, the City's population increased a moderate 17% to an estimated 40,380 (2008). The City is located about 130 miles southeast of the state capitol, Boise, and is the Twin Falls county seat. According to the 2000 census, per capita and median family income levels were below state averages at 92% and 89%, respectively. The water system currently has an estimated 14,300 accounts and an ample water supply comprised of numerous ground wells. In order to become in full compliance with federal arsenic standards by January 2011, proceeds from the current sale will be used to purchase water rights which will allow the enterprise to blend current supply with new water sources which have arsenic levels closer to the upcoming standards. Significant future borrowing and user rate increases will be necessary to upgrade existing systems to become fully compliant and provide for sufficient net revenues to cover annual debt service payments.

In fiscal 2008 (unaudited), net working capital was a strong 98.6% of gross revenues (\$5.9 million) and only slightly less than prior years. Including a prior state loan and the current sale, FY08 net revenues provide a sound 1.8 times coverage of maximum annual debt service (MADS). The current sale pays out at an above average 54% in ten years and the pro-forma debt ratio increases to 47%. As mentioned above, significant near term borrowing will pressure system fiscal operations; over the next three years an additional \$24 million is expected to be borrowed. In order to remain in compliance with legal provisions the city is currently adopting significant rate increases of between 8 - 10% annually for the next three years. Legal provisions are somewhat weak and include a rate covenant requiring 1.25 times coverage of annual debt service, an additional bonds test of 1.25 times MADS, and no debt service reserve requirement unless the rate covenant is not satisfied. In this case the requirement must be met within four years and will be equal to the standard lesser of test.

Moody's has reviewed and assessed the credit quality of the Twin Falls water enterprise. The rating equivalent of the pledged securities is deemed to be of investment grade quality. Factors include the average wealth levels of the service area, solid cash levels and pressured net revenues given substantial borrowing in the near term.

KEY STATISTICS:

City of Twin Falls Water Enterprise

Loan amount: \$10.225 million

Purpose: Purchase water rights

FY08 coverage of maximum annual debt service: 1.8 times

The last rating action was on January 22, 2009 when a rating of Aa2 was assigned to the Idaho Bond Bank Authority.

The principal methodologies used in rating Revenue Bonds, Series 2009B of the Idaho Bond Bank Authority were State Aid Intercept Programs (February 2008) and Financings and Local Government General Obligation and Related Ratings (December 2008), which can be found at www.moody.com in the Credit Policy & Methodologies directory, in the Ratings Methodologies subdirectory. Other methodologies and factors that may have been considered in the process of rating this issue can also be found in the Credit Policy & Methodologies directory.

Analysts

Dan Steed
Analyst
Public Finance Group
Moody's Investors Service

Patrick Ford
Backup Analyst
Public Finance Group
Moody's Investors Service

Matthew Jones
Senior Credit Officer
Public Finance Group
Moody's Investors Service

Contacts

Journalists: (212) 553-0376
Research Clients: (212) 553-1653

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